



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

March 25, 2011

To: Mayor Michael D. Antonovich
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

From: William T Fujioka
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

MARK RIDLEY-THOMAS
Second District

ZEY YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

STATUS REPORT IN RESPONSE TO THE BOARD ORDER OF JANUARY 18, 2011 TO MONITOR MUNICIPAL BANKRUPTCIES IN THE UNITED STATES THAT WOULD HAVE A DIRECT IMPACT ON OUR MUNICIPALITIES AND REPORT BACK ON THE COURT DECISION ON THE CITY OF VALLEJO BANKRUPTCY PLAN

On January 18, 2011, Mayor Antonovich requested the Chief Executive Office to monitor municipal bankruptcies in the United States that would have a direct impact on our municipalities and report back on the court decision on the City of Vallejo bankruptcy plan. This is the second status report to provide a follow up of recent court actions regarding the City of Vallejo's bankruptcy plan and an update on new developments related to municipal bankruptcies.

City of Vallejo

As reported on February 22, 2011, the City of Vallejo filed for bankruptcy in 2008, and on January 18, 2011, the City filed a plan for the adjustment of debts with the United States Bankruptcy Court. The City's plan proposes to: 1) renegotiate labor contracts with its employee groups; 2) develop a new employee benefits structure; 3) reduce pension, retirement health, and other benefits; 4) and restructure capital and infrastructure projects.

On March 7, 2011, the United States Bankruptcy Court conducted a hearing to review the City's bankruptcy plan and heard arguments concerning the adequacy of the plan. The Court heard presentations from City representatives on their strategy to exit bankruptcy and from retired employees expressing concerns regarding possible negative effects on their retirement benefits. Presiding Judge Michael McManus left the

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case open, but stated that the case has been pending long enough and he expects to hear final arguments on the City's plan to exit bankruptcy no later than June 2011. Judge McManus also stated that he plans to rule on complaints regarding proposed cuts to medical coverage lodged by a committee of retired City of Vallejo workers.

The next hearing is scheduled for April 11, 2011 to evaluate the City's revised plan.

Municipal Bankruptcy Recent Developments

National Governor's Association

On February 26, 2011, the National Governor's Association (NGA) issued a statement warning that mere discussions about allowing state bankruptcy filings have resulted in increased state borrowing costs. According to the NGA, many Governors strongly oppose Federal proposals to allow states bankruptcy protection because such proposals create volatility in the financial markets, which negatively affect state's ability to borrow funds to conduct its operations.

Other Developments

On March 1, 2011, Boise County, located in the State of Idaho, filed for municipal bankruptcy protection due to its inability to pay a \$4.0 million judgment. Boise County, with a population of approximately 7,500 and an operating budget estimated at \$9.4 million, lost a Federal lawsuit brought by a developer of a proposed residential treatment facility for minors. The Boise County Assessor stated that the bankruptcy filing was not the result of revenue problems, but rather an attempt to maintain essential county services after suffering an expensive legal setback.

We will continue to monitor municipal bankruptcies and the City of Vallejo bankruptcy proceedings and will report back to your Board when major developments take place.

WTF:RA
MR:RM:sb

c: Executive Office, Board of Supervisors
County Counsel